



## **Housing Credit Policy Guidance Update**

*April 11, 2017*

DCA hereby establishes guidelines for dealing with recent changes in the Housing Credit investment markets, which resulted in generally lower federal housing tax credit pricing for 2016 and 2017 developments. Additional guidance also follows on leveraging loans in the 2016 and 2017 Application rounds.

### **Guidance on DCA Policy in Response to Housing Credit Market Changes**

1. Additional allocations – DCA will not make additional allocations of 2017 credits to 2016 awarded applications to fill gaps created by market changes.
2. 2017 round – DCA will not delay the 2017 round. 9% applications will still be due by 4:00 pm on May 25, 2017.
3. Deferred development fee – DCA will maintain the limits on deferred developer fee listed in the 2017 QAP.
4. 2017 pricing assumptions – DCA will continue to evaluate pricing for outliers and competitiveness, as outlined in the 2017 QAP.
5. Restructure review – DCA may review requirements either on a project-by-project basis or statewide that have substantial cost implications that, if eliminated or modified, can reduce costs to allow projects to proceed without additional allocation.
6. Increased reporting – DCA may require periodic updates on progress towards firm financial commitments for both debt and equity for the 2016 and 2017 round.
7. Excess basis - If a project has excess basis, DCA may allow a 4%/9% hybrid model to be used. Awardees should bring any requests for waivers for this model to the agency as early as possible.
8. QAP changes – DCA has the right to amend the QAP to allow for emergency response to situations which have not been foreseen or provided for in the QAP.
9. Upward adjuster clauses – DCA will review upward adjustments in credit pricing, if relevant, upon issuance of 8609 forms with consideration for changes in the equity market. For properties with HOME loans, DCA may require that a portion of an upward capital contribution be used to pay down that loan.

## **DCA Policy on 2016 Leveraging Points in a Rising Interest Rate Environment**

**Issue:** Recent events have had a profound impact on lending. Current long term fixed rates may be higher than 200 basis points above Bank Prime as of May 5, 2016 (5.5%).

**Discussion:** DCA's intent in considering market loans for leveraging points is first and foremost to increase the overall production of units by maximizing non-Housing Credit sources of funds. Additionally, to consider market loans on par with grants and below-market loans, incentives are in place to encourage competitive interest rates. These rates also mitigate the impact of the debt on a property's cash flow, increasing funds available for property upkeep. DCA notes that the applicant takes on interest rate risk when applying for leveraging points.

**Decision:** DCA will allow 2016 properties awarded points for leveraging through market rate loans to pursue interest rates available in the current market. However, awardees must still meet DCA underwriting standards, particularly Debt Service Coverage Ratio requirements. If the debt is adjusted down to meet the applicable DSCR, it is the awardee's responsibility to ensure adequate sources are in the deal. DCA will not provide new credits to 2016 awardees facing a decreased mortgage amount due to rising interest rates.

## **DCA Policy on 2017 Round HUD 221(d)4 Documentation Requirements**

**Issue:** Documentation required for HUD 221(d)4 loans is unclear and appears to create a need for full plans and specs, among other documentation, prior to notice of awards.

**Discussion:** Scoring Section XV: Leveraging clearly allows HUD 221(d)4 loans that meet all scoring requirements, which includes meeting requirements listed in Threshold page 7 of 61—a letter showing serious consideration from HUD Multifamily Housing and a Preliminary Commitment from the lender. HUD refers to this letter showing serious consideration as a Letter of Encouragement to apply, which may be delivered via email. Further, a MAP Invitation is listed as required by the date noted in Exhibit A. HUD invitation letters are listed as due on July 7, 2017 in Exhibit A on Core page 43 of 45. As HUD has transitioned to a Direct to Firm lending process, this Invitation to Apply is no longer a necessary component of a loan.

**Decision:** Upon a HUD Concept Meeting, applicants must include a Letter of Encouragement to submit a loan application from HUD Multifamily at application. If Applicant is applying Direct to Firm, then a HUD Invitation Letter is not required in addition to the Letter of Encouragement submitted with the application. Firm Commitments for loans are still due 75 days after the issuance of the carryover allocation, as noted in Exhibit A on Core page 45 of 45. Failure to attain a 221(d)4 loan used to claim leveraging points may result in the loss of applicant's Housing Credit award.